

REPORT ON ORGANIZATION

OF THE

US COASTAL INSURANCE COMPANY

AS OF

NOVEMBER 12, 2013

DATE OF REPORT

NOVEMBER 15, 2013

EXAMINER

RAJENDRA SUNDER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

November 15, 2013

Mr. Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31081 dated November 15, 2013 attached hereto, I have made an examination on organization of US Coastal Insurance Company as of November 12, 2013, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate US Coastal Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the office of the Company's attorney located at 180 Maiden Lane, New York, NY 10038-4982. The Company's main administrative office will be located at 301 NW 138th Terrace, Jonesville, FL 32669.

1. SCOPE OF EXAMINATION

The examination comprised a complete verification of the issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of the Company's assets and liabilities. The records examined were the Declaration of Intention and Charter, the By-Laws, the Certificate of Incorporation, the corporate minutes, the stock register and the inter-company and custodial agreements entered into by the Company as of the examination date. In addition, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were lawful and bona fide.

2. INCORPORATION

US Coastal Insurance Company was incorporated under the laws of the State of New York on May 22, 2013. The Department approved the Company's Declaration of Intention and Charter on the same date. The Company's office is intended to be located at 240 Riverside Blvd., Apt. 8D, New York, NY 10069.

As of the examination date, the Company's board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy R. Brien New York, NY	Investor, Self-employed
Andrew Bustillo Fair Haven, NJ	President, Red Bank Re, LLC
David Flitman Paget, Bermuda	Insurance Executive (currently unemployed)
Jeffrey R. Hershman Chalfont, PA	Vice President, US Coastal Insurance Company
Ronda L. Loshonkohl Gainesville, FL	Vice President, US Coastal Insurance Company
Michael L. McNitt Gainesville, FL	President & CEO, US Coastal Insurance Company
Roger L. McNitt San Diego, CA	Of Counsel, Blanchard, Krasner & French

As of November 12, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael L. McNitt	President & CEO
John D. Lockhart	Treasurer
Jeffrey R. Hershman	Vice President
Mohammad Sherif	Secretary

3. CAPITALIZATION AND SUBSCRIPTION

The Company's authorized capital of \$3,000,000 consists of 3,000 shares of \$1,000 par value per share common stock. Gross paid in and contributed surplus is \$4,100,000. The Company issued 3,000 shares on May 22, 2013 to US Coastal Holdings, LLC, a Delaware Limited Liability Company, for a consideration of \$7,100,000.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, the Company has placed securities with a par and market value totaling \$500,000 in an account in the name of the "Superintendent of Insurance of the State of New York in Trust for the security of all policyholders of US Coastal Insurance Company within the United States, its territories and possessions." The custodian is U.S. Bank National Association, located at 225 Water Street, Suite 700, Jacksonville, FL 32202 and the securities are held pursuant to a custodian agreement that conforms to the provisions of Section 1314 of the New York Insurance Law.

4. BALANCE SHEET

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of November 12, 2013, and as reported by the Company:

Assets

Cash and short-term investments		\$3,533,501
Bonds		3,555,707
Accrued investment income		<u>10,742</u>
Total Assets		<u>\$7,099,950</u>

Liabilities

Total liabilities		\$ <u>0</u>
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Capital and Surplus

Common capital stock	\$3,000,000	
Gross paid in and contributed surplus	4,100,000	
Unassigned funds (surplus)	<u>(50)</u>	
Total surplus as regards policyholders		<u>7,099,950</u>
Total liabilities and surplus as regards policyholders		<u>\$7,099,950</u>

5. CUSTODIAN AGREEMENT

A review of the Company's custodian agreement with U.S. Bank National Association indicated that the agreement lacks the following required provisions:

- i) If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner; and
- ii) The custodian shall provide, upon written request from *a regulator or* an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian. (Emphasis added)

It is recommended that the Company amend its custodian agreement to incorporate the missing required provisions.

6. AUTHORIZATION POWERS AND MINIMUM CAPITAL REQUIRED

Pursuant to its Declaration of Intention and Charter, the Company is authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous Property
6	Water Damage
7	Burglary and Theft
8	Glass
9	Boiler and Machinery
12	Collision
13	Personal Injury Liability
14	Property Damage Liability
19	Motor Vehicle and Aircraft Physical Damage
20	Marine and Inland Marine (Inland only)

The Company's license will include all of the foregoing kinds of insurance. Pursuant to the provisions of Articles 13 and 41 of the New York Insurance Law, in order to be licensed to transact the foregoing kind(s) of insurance, the Company shall have an initial surplus to policyholders in the amount of \$2,800,000, including \$1,000,000 of capital, and shall thereafter maintain a minimum surplus to policyholders in the amount of \$1,700,000.

Pursuant to the provisions of Section 1102(e)(1)(A) of the New York Insurance Law, in order for the Superintendent to issue a license to the Company, it must have the amount of its minimum initial surplus to policyholders on deposit in either cash or investments qualifying as minimum capital or surplus investments pursuant to Section 1402 of the New York Insurance Law; such investments consist of:

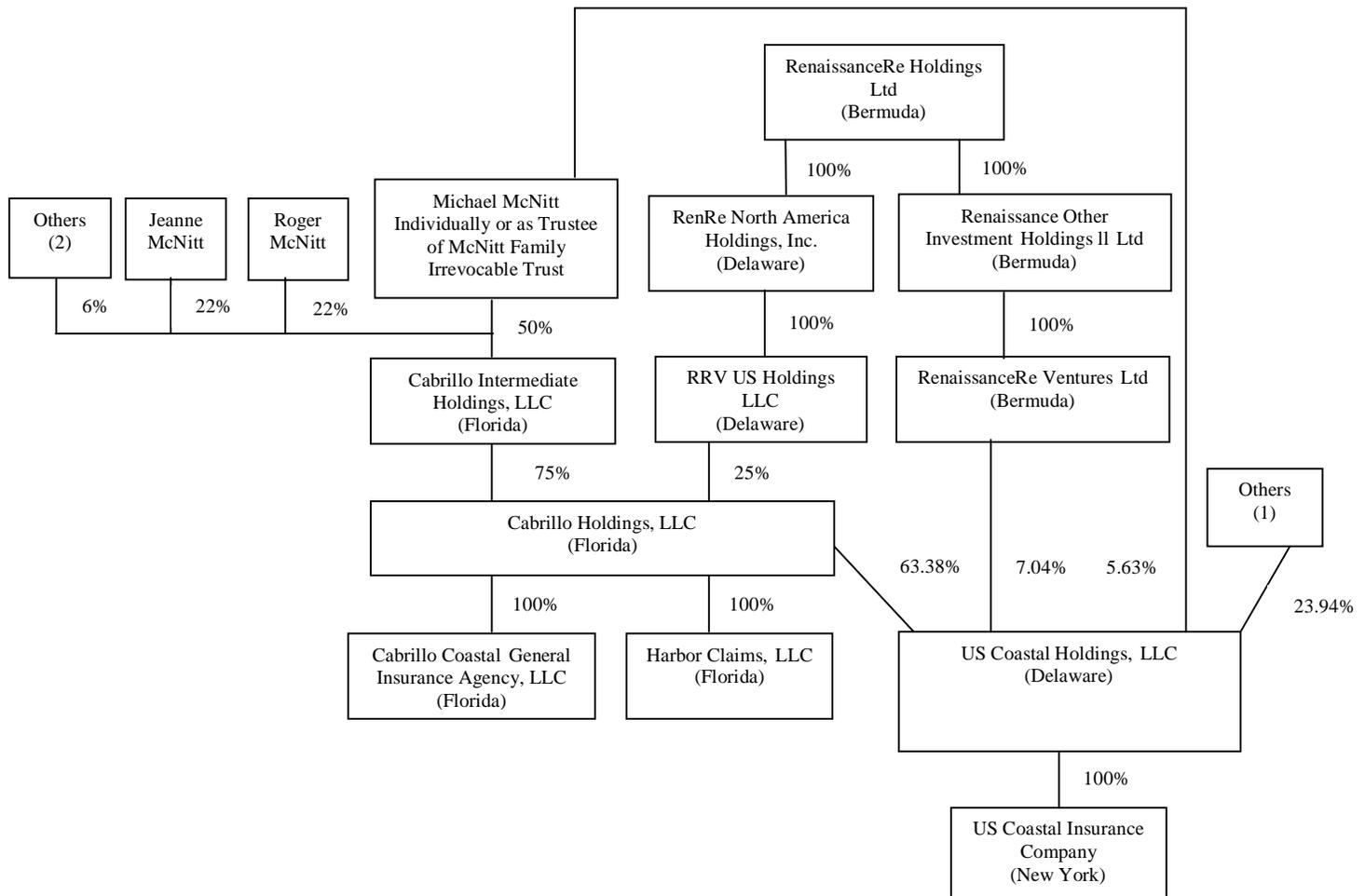
- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.
- (2) Direct obligations of this state or of any county, district or municipality thereof.
- (3) Direct obligations of any state of the United States.
- (4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state.

The Company has met these requirements.

7. HOLDING COMPANY SYSTEM

The Company is a member of Cabrillo Holdings, LLC (Florida). The Company is a wholly-owned subsidiary of US Coastal Holdings, LLC (Delaware), which is ultimately controlled by Cabrillo Intermediate Holdings, LLC (Florida).

The following is a chart of the holding company system at November 12, 2013:



(1) Individuals and entities collectively own 23.94%, with no individual or entity owning more than 10% directly or indirectly.

(2) Individuals, including management of Cabrillo Holdings, collectively own 6%.

At November 12, 2013, the Company was party to the following agreements with other members of its holding company system:

Claims Management Agreement

Effective November 4, 2013, the Company grants Harbor Claims, LLC limited authority to manage and settle claims arising from insurance policies issued by the Company. This limited authority includes the processing, investigating, adjusting, compromising, defending, litigating, supervising, and payment of claims, and pursuing and collecting subrogation and salvage recoveries for claims. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Managing General Agency (MGA) Agreement

Effective November 4, 2013, the Company has appointed Cabrillo Coastal General Insurance Agency, LLC (CCGIA) as its Managing General Agent to supervise and conduct the writing of insurance covering homeowners and dwelling fire risks in New York. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

8. CONCLUSION

Based on the foregoing examination, it is concluded that the Company sold 3,000 shares of common stock with a par value of \$1,000 per share. These shares represented the total authorized and issued stock, for which the Company received a consideration of \$7,100,000, of which \$3,000,000 represents capital paid in and \$4,100,000 represents gross paid in and contributed surplus.

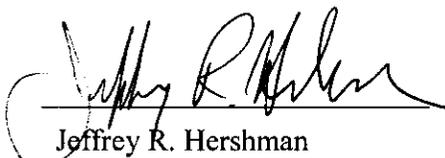
9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Custodian Agreement</u>	
It is recommended that the Company amend its custodian agreement to incorporate the missing required provisions.	4

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On November 12, 2013, the undersigned, each an executive officer of US Coastal Insurance Company ("Company"), duly sworn, depose and say under oath that:

1. They are, respectively, the Vice-President and Treasurer of the Company.
2. The Company's capital and surplus equals seven million one hundred thousand dollars (\$7,100,000), consisting of paid in capital of three million dollars (\$3,000,000) and contributed surplus of four million fifty thousand dollars (\$4,100,000) (the "Capital and Surplus). The Capital and Surplus is on deposit with the Community Bank & Trust of Florida.
3. No part of the Capital and Surplus has been withdrawn, pledged, or in any way impaired.
4. No part of the Capital and Surplus is to be invested or otherwise legitimately used or appropriated except for the sole and exclusive use and benefit of the Company.
5. There is no agreement or understanding, express or implied, made or existing between the Company and its officers, or any or either of them, or any person or persons, to the effect or import that the money paid in by any stockholder shall be loaned or returned to it.
6. Neither the Company nor any of its officers is in any way, manner or form pledged or committed to make any investment, loan or disposition of the Capital and Surplus, or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.
7. The Capital and Surplus is the property of the Company and is possessed by the Company in its corporate name and capacity for the benefit of its policyholders.



Jeffrey R. Hershman 11/12/13
Vice-President 11/12/13



John D. Lockhart 11/12/13
Treasurer 11/12/13

Subscribed and sworn to before me this
12 day of NOV. 2013, [YEAR]



KANUBHAI N. CHRISTIAN
Notary Public, State of New York
No. 01CH8100024
Qualified in Kings County
Commission Expires Oct. 6, 2015

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Rajendra Sunder

as a proper person to examine the affairs of the

US Coastal Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

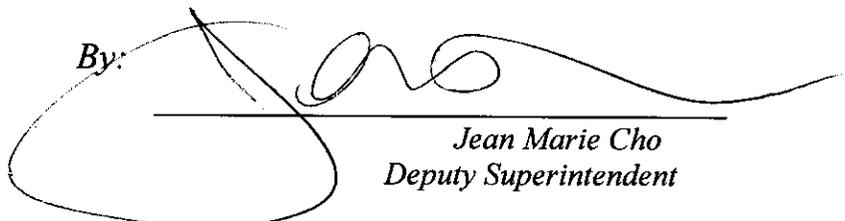
*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 15th day of November, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Jean Marie Cho
Deputy Superintendent